

ENCLOSURE

Approved For Release 1999/09/10 : CIA-RDP83-00423R001401170000-7

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New York, New York March 10, 1954

APR 9 2 09 PM '54

U. S. F. M. - SUMATRA
ACTIVITY STATUS REPORT
LAND & POLITICAL SECTION
JANUARY & FEBRUARY 1954

The following is a review of the political situation and related developments in Indonesia as affecting Caltex Pacific interests in Sumatra during the months January and February 1954.

POLITICAL DEVELOPMENTS

There have been no significant changes in the political situation during the past two months. However, it may be mentioned that the Masjumi Party has continued to be very critical of the Government. There have been several mass meetings at various places in this connection, the largest of all in Djakarta on the last day in February when many thousands of Moslems demonstrated in the streets in protest against alleged left wing "insults" to Islam.

COMPANY LICENSES

EXCHANGE LICENSE NEGOTIATIONS

Very active exchange license negotiations were in progress during the months of January and February, with the result that at the end of February it appeared that an exchange license satisfactory to the Company would be granted shortly.

TAX ADJUSTMENT NEGOTIATIONS

Negotiations with the Indonesian Government in an effort to obtain an approximate 50/50 tax basis were continued during January and February. Such negotiations principally concerned establishing a suitable "percentage exploration allowance" and substantiating the present of take price. It appeared the Indonesian Government desires establishing an approximate 50/50 basis would be issued in the near future.

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CRUDE EXPORT VALUATION

The question of crude valuation for export tax purposes was reviewed in New York Board meeting held on January 20th, at which time it was concluded that the matter would require further study because of possible far reaching consequences and international implications. It was decided that the offtake price, which is lower than the new export valuation, would be defended. It was further decided that Caltex Pacific should continue to pay the export tax at the new higher valuation and at the 9% rate fixed for Caltex Pacific, but after having made a formal protest.

The problem meanwhile would be studied further with a view towards arriving at a mutually satisfactory export tax valuation.